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## UNITED STATES AGRICULTURAL ADJUSTMENT ACT

### Twenty-Fourth Annual Report by the United States Government under the Decision of 5 March 1955

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REPORT OF THE UNITED STATES GOVERNMENT TO THE  
CONTRACTING PARTIES ON ACTION UNDER SECTION 22  
OF THE AGRICULTURAL ADJUSTMENT ACT

Introduction

This report is submitted in accordance with a Decision of the CONTRACTING PARTIES of 5 March 1955. It includes a summary of pertinent background information; a review of recent developments, including the pertinent provisions of the new farm legislation which became effective 22 December 1981, concerning the commodities currently subject to Section 22 import regulations; a description of the steps taken in the United States to balance production with demand; and general observations responding to comments on the preceding report. Thereafter, the report outlines in detail the supply position and related data for each of the commodities for which Section 22 controls are currently in effect. These sections carry forward the statistical and programme information regulation reported on an annual basis; essentially, they cover the period from October 1980 to October 1981.

Background

Section 22 of the Agricultural Adjustment Act, as amended, has been in effect since 24 August 1935. It empowers the President of the United States on the basis of an investigation and report by the United States International Trade Commission (formerly the United States Tariff Commission) to regulate the importation of commodities whenever he finds that such importation renders or tends to render ineffective or materially interferes with the price support or stabilization programmes relating to agricultural commodities undertaken by the Department of Agriculture. When a condition exists requiring emergency treatment, the President may take action prior to the Commission's investigation and report.

The legislation also provides for the modification of import regulations established under its terms in order to meet changing circumstances. The complete text of Section 22 is published as an Annex in BISD, Third Supplement, page 36.

By Decision of 5 March 1955, the CONTRACTING PARTIES waived obligations of the United States under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions required to be taken by Government of the United States under Section 22 of the Agricultural Adjustment Act, as amended (see BISD, Third Supplement, page 32). The waiver Decision specifies certain conditions and procedures, including the furnishing by the United States of an annual report covering:

1. Any modifications or removal of restrictions effected during the reporting period;
2. Restrictions currently in effect;

3. Reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied, and;
4. Steps taken during the reporting period with a view to a solution of the problem of surpluses of agricultural commodities.

This report is submitted in compliance with that requirement.

The examination by the CONTRACTING PARTIES of the previous report, submitted in November 1980, was reviewed by the GATT Council on 10 March 1981. This report takes into account the Council's discussion and supplies requested information wherever possible.

#### Recent Changes in Section 22 Controls

Import restrictions pursuant to Section 22 are in effect on cotton of specified staple lengths, cotton waste and certain cotton products, peanuts, certain dairy products, and sugar. During the period covered by this report, actions were taken to permit increased imports of peanuts and cotton, and for most of the period, imports of raw sugar remained unrestricted. No new restrictions on imports of Section 22 commodities were imposed.

Cotton. Although the Section 22 quotas on cotton, cotton waste and certain cotton products remained unchanged throughout the reporting period, action was taken under other legislative authority which amounted to a ninety-day expansion of the import quotas for upland cotton. Acting under special provisions of the Agricultural Act of 1949, as amended by the Food and Agriculture Act of 1977, the President on 24 November 1980 proclaimed a new special import quota for upland cotton (of all applicable staple lengths) in the amount of 238,633,920 pounds. The quota was in effect from 28 November 1980 through 25 February 1981, in accordance with the requirements of the Act which provide for authorization of additional imports during periods of unusually high prices. Subsequently, declining prices precluded extension of the special quota.

Peanuts. The 1980 United States peanut crop was damaged severely by intense heat and drought; production was 42 per cent below the previous year. For the 1980/81 crop year, edible supplies, which normally exceed requirements for domestic use and export, were insufficient to those needs. Accordingly, effective 4 December 1980, action was taken to authorize additional imports. Through 31 July 1981, the regular Section 22 import quota was increased by 300 million pounds.

Dairy products. No additional restrictions were placed on imports of dairy products. Administrative actions were taken to facilitate greater utilization of the existing import quotas; details are given in the "Dairy Products" section of this report. On 24 August 1981, the United States International Trade Commission instituted an investigation to determine whether casein and lactalbumin should be added to the list of dairy products

subject to Section 22 controls. The Commission's investigation followed efforts in the United States Senate, which the Administration successfully opposed, to legislate an import quota on casein. In its report to the President on 29 January 1982, the Commission found that imports of casein and lactalbumin were not interfering with, or threatening to interfere with, the Department of Agriculture's support programme for milk.

Sugar. Since submission of the previous report, the import fee for raw sugar remained at zero cents per pound until 11 September 1981, when rapidly declining world prices triggered the imposition of an import charge. Fees ranging from 1 cent to 1.531 cents per pound remained in effect until 23 December, when the President utilized the emergency powers of Section 22 to make changes in the import fee system necessitated by new legislation, which became effective the previous day. On 22 December the import fees for raw and refined sugar, respectively, were increased to 2.1418 and 3.1104 cents per pound and the United States International Trade Commission was instructed to investigate and report on the need for such controls. Further details concerning these actions are given in the section on sugar.

#### Steps Taken to Balance Agricultural Production with Demand

During the period under review, the United States continued to take actions designed to bring about a better balance between supply and demand of the commodities under Section 22 regulation. The preceding section has summarized the special measures taken to permit increased imports of cotton and peanuts. This section briefly summarizes other steps taken to influence supply and to increase consumption. In the main, these are continuing programmes. Greater details are provided in the subsequent individual commodity sections.

Acreage allotments and marketing quotas were in effect for the 1980 and 1981 crops of extra long staple cotton and peanuts. Compliance with these requirements is a condition of price support and other programme benefits and serves to limit acreage planted. For upland cotton, a national programme acreage - similar to the previous national acreage allotment - was established for the 1980 and 1981 crops. Although this does not limit the acreage planted, it determines the acreage eligible for support payments. Efforts to increase consumption of cotton include research and market promotion programmes intended to improve competitiveness with other fibres in both domestic and foreign markets. Government stocks of peanuts were used, in processed food form, in domestic distribution programmes.

The dairy support programme is intended to maintain the nation's capacity to produce an adequate supply of milk and dairy products throughout the year. Government purchases are normally seasonally concentrated in the

period from late winter until mid-summer. Under legislation prevailing from 1977 through 1981, support prices were required to be adjusted (for inflationary changes) semi-annually on 1 October, the beginning of the marketing year, and again on 1 April. In 1981, however, because above-normal production had led to excessive government support purchases and inventories, the Administration sought and successfully obtained special legislation suspending the price increases which would have taken place on 1 April and 1 October of that year. During the reporting period, the price support for milk and the equivalent purchase prices for manufactured dairy products were maintained at the minimum level permitted by law. As in previous years, a large number of utilization and distribution programmes were operated to increase consumption through the use of government stocks; these are described in detail in the Dairy Products section.

For sugar cane and sugar beets, no price support loan programme was in effect for the 1980 and 1981 crops. Support operations for the 1979 crop, including administration of loans and government inventories of sugar, continued. The new farm legislation requires reinstatement of the sugar price support loan programme effective with the 1982 crop. United States sugar production has been declining; the loan programme is designed to maintain a United States capacity to produce a substantial part of its sugar needs, but not achieve an uneconomically high degree of self-sufficiency. Foreign suppliers have ready access to the United States market. The disposal of government-held stocks has been conducted in ways which have avoided market disturbance. Programmes to increase consumption have not been a practical alternative.

#### The Agriculture and Food Act of 1981

The Agriculture and Food Act of 1981, which became effective 22 December 1981, contains important provisions which are intended to improve the supply balance which necessitates the use of Section 22 controls. This is part of continuing efforts by the United States authorities to adjust agricultural support programmes to changes in the supply and demand situation. The principal provisions of the Act affecting Section 22 commodities are summarized below.

For cotton, the current loan programme is continued, with revised support levels and more flexible formulae. As a condition of support, the Secretary of Agriculture, may require a reduction in cotton acreage. (This has been done for the 1982 crop.) Financial incentives for acreage diversion also are authorized. Disaster payments will be mandatory only for producers who do not have federal crop insurance available. For extra long staple cotton, direct payments to growers are eliminated.

The former peanut acreage allotment programme has been eliminated, but the national poundage quota system which strictly limits production has been continued at progressively declining levels. As part of the continuing effort to adjust production to requirements, the quota for 1982 of 1.2 million tons is 17 per cent below the 1981 quota. The poundage quota

will decrease each year through 1985 to a level of 1.1 million tons. Support for non-quota peanuts will be set by the Secretary, based generally on world market conditions and fixed at a rate which will avoid any net cost to the government. Non-quota production is entirely to meet export needs.

As noted above, because of continuing high milk production, the automatic upward adjustments of the support level on 1 April and 1 October 1981, which were originally required by the applicable legislation, were foregone. Thus the support level which had been established on 1 October 1980 at \$13.10 per hundredweight (national average milkfat content of 3.67 per cent) was continued throughout the 1980/81 marketing year (October-September) and into the 1981-82 marketing year. The adjustment process is being continued by the Agriculture and Food Act through new provisions, which for the first time limit use of the parity index for determining the required support level. Support is held at \$13.10 for all of the 1981/82 marketing year, the lowest level as a percentage of parity in the history of the dairy support programme. For the three following marketing years, support will be \$13.25, \$14.00 and \$14.60, respectively, if government support purchases are projected at more than \$1 billion. In any year where purchases are projected at less than that amount, the minimum will rise to 70 per cent of parity; this level would still be below that of any other recent period. Beginning with the 1982/83 marketing year, there are additional provisions for adjustment of the support level to 75 per cent of parity should sharp decreases in projected government purchases take place. These provisions, necessitated by excessive government purchases and inventories, represent the most drastic cutback in dairy production support in modern times.

In order to maintain viability for production of at least part of United States sugar requirements, and to counter a declining trend in domestic production, the Act reinstated a support programme for sugar cane and sugar beets. For a four-year programme beginning with the 1982 crop, support loan rates are established at 17 cents a pound for raw cane sugar of the 1982 crop, 17.5 cents for 1983, 17.75 cents for 1984, and 18 cents for 1985. For sugar processed between 22 December 1981 and 31 March 1982, a purchase programme for raw cane sugar based at 16.75 cents a pound will apply. The loan and purchase rates for processed beet sugar will be set at a rate the Secretary of Agriculture determines to be fair and reasonable in relation to the support level for sugar cane. Despite gradually declining consumption, the United States will continue to import nearly half of its sugar needs.

#### General Observations

The review by the CONTRACTING PARTIES of the preceding report resulted in a number of suggestions and criticism with respect to United States agricultural production and trade policies. These were taken into account both in the process of enactment of new farm legislation and in the utilization and administration of the Section 22 authority. The preparation of the Administration's legislation proposals for the new farm bill necessarily required a fundamental review of the dairy programme, as suggested by some contracting parties. The price adjustments in the dairy sector, summarized in the preceding section, are intended not only to discourage the production of surpluses but likewise to encourage consumption.

For three of the four commodity groupings subject to Section 22 controls (cotton, peanuts, dairy products), United States production normally exceeds market requirements. Adjustments have been made to bring production more nearly into balance with domestic and export requirements and, under the new legislation, these adjustments will continue in the years immediately ahead.

For the remaining grouping, sugar, the United States will continue to produce only part of its needs and foreign suppliers will continue to have access to the United States market for large tonnages of sugar. Import totals for 1982 probably will be smaller than in 1981, because substantial amounts of 1982 requirements were imported in the latter months of 1981 to escape expected increases in border charges. It is anticipated that imports will again rise in 1983.

For all four groupings, the absence of Section 22 controls would enable imports to displace domestic production in substantial amounts, resulting in costly interference with the government's support programmes by forcing excessive government purchases and inventory acquisitions. The United States has chosen, at considerable expense, to store its surpluses and seek to dispose of them outside of commercial channels, rather than to disrupt world markets through aggressive export subsidies.

At the previous review, some contracting parties suggested that the United States should replace its Section 22 controls with anti-dumping and countervailing duties, particularly for dairy products. Such measures have in the past not been adequate to prevent interference with the support programmes, and no evidence is available to cast doubt on the continuing validity of this assessment. It is noted that other countries do not rely solely on these devices for the protection of their domestic dairy programmes.

The United States considers that it has faithfully met the conditions of the Section 22 Waiver, including exploration of alternative approaches and continuation of efforts to increase consumption and improve the supply balance of the commodities involved. It is also pointed out that all the proposed restrictions under the Section 22 authority are subject to public rule-making procedures which enable all interested parties, including foreign governments and foreign suppliers, to present their views and supporting evidence before a final decision is made. The recent investigation of the International Trade Commission of casein and lactalbumin imports, mentioned above, is a recent example of such proceedings in which the views of foreign suppliers and their American business associates were considered. The Commission concluded that import restrictions for these products were not warranted and advised the President accordingly.

The United States will continue to confine its Section 22 controls to the measures necessary to prevent interference by imports with its support programmes for agricultural commodities.

#### Levels of Price Support

Price support levels for commodities regulated under Section 22 for 1980 and 1981 are shown in Table 1.

TABLE 1 - Price Support Levels: Section 22 Commodities

<u>Commodity</u>	<u>Unit</u>	<u>Support Price</u>	
		<u>1980</u>	<u>1981</u>
		(Dollars)	(Dollars)
Cotton, Upland			
Loan Rate <sup>1/</sup>	1b.	.4800	.5246
Deficiency Payment <sup>2/</sup>	1b.	<u>3/</u>	.0767
Cotton, Extra Long Staple			
Loan Rate	1b.	.9350	.9900
Payments	1b.	0	0
Peanuts - Quota Loan	1b.	.2275	.2275
- Additional Loan	1b.	.1250	.1250
Dairy Products			
Mfg. Milk <sup>4/</sup>	cwt.	11.49	13.10
		12.36	13.49
		13.10	13.10
Raw Cane Sugar Loan	1b.	<u>5/</u>	<u>5/</u>
Refined Beet Sugar Loan	1b.	<u>5/</u>	<u>5/</u>

1/ Basis Strict Low Middling 1-1/16", net weight, micronaire 3.5. through 4.9, at average location.

2/ No deficiency payments were made for 1980; for 1981, farm deficiency payments will be calculated on the acreage of cotton determined by multiplying the acreage planted for harvest on the farm by the national allocation factor of 93 percent. Producers who did not increase their planted acreage in 1981 from 1980, will receive deficiency payments on the total planted acreage.

3/ The Food and Agriculture Act of 1977 continued guaranteed or "target" prices. For 1980 the target price was 58.40 cents per pound; for 1981, it is 70.87 cents per pound. Deficiency payments are made only if the average market price received by farmers during the applicable calendar year is lower than the target price.

4/ Implemented through a standing offer to purchase Cheddar Cheese, butter and nonfat dry milk, in cartons, from processors at prices designed to return the support price for manufacturing milk on an annual national average basis. On 1 October 1979, the beginning of the marketing year, the price support was set at \$11.49; on 1 April 1980, it was increased to \$12.36; on 1 October 1980, the support price was increased to \$13.10; on 1 October 1981, it was increased to \$13.49; on 21 October 1981, it was decreased to \$13.10.

5/ There was no support program for the 1980 and 1981 crops. For the 1982 crop, the loan rates is .1700 for cane sugar; the rate for beet sugar is still to be determined.



## COTTON AND COTTON WASTE

### Section 22 Quotas in Effect

Import quotas continue for upland-type cotton, long staple cotton, and certain cotton waste and cotton products.

### Need for Continuing Import Quotas

During the 1980 and 1981 crop seasons, the United States has had in operation price support, production adjustment, and related surplus disposal programmes and thus restrictions were continued. Acreage limitations apply to the 1982 crop. Import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with the Department of Agriculture's programmes for cotton.

### 1981 Cotton Programme

The 1981 programme for extra long staple (ELS) cotton was essentially the same as the 1978, 1979, and 1980 programmes. The ELS cotton programme is governed by acreage allotments and marketing quotas. Acreage of ELS cotton is limited by the acreage allotment. Producers who plant in excess of their allotment are subject to severe penalties on the excess production and are not eligible for loans. The 1981 national acreage allotment was 150,241 acres.

The Food and Agriculture Act of 1977 continued for upland cotton the concepts provided in the Agriculture and Consumer Protection Act of 1973. The 1977 Act provided a four-year programme (1978-1981) for wheat, feedgrains, rice, and upland cotton. The upland cotton programme is part of an overall farm programme designed to encourage necessary agricultural production to meet domestic and foreign demand while protecting farm income earned from the market place.

The 1977 Act continued the concept of guaranteed or "target" prices. The target price for 1981 crop upland cotton was 70.87 cents per pound. If the weighted average market price received by farmers during the 1981 calendar year was at or above the 70.87 cents per pound target price, no deficiency payments were made. If the average price was below the target level, payments would be made on the difference. The 1977 Act limited total payments to any person under one or more of the annual programmes for cotton, wheat, rice, or feed grains to \$50,000 for the 1981 crop.

There was no cropland set-aside requirement for upland cotton in 1981. Producers who did not increase planted acreage from the previous year were guaranteed target price protection on total production.

The 1980 final national programme acreage for upland cotton was 11,894,104 acres. The 1981 national programme acreage for upland cotton was set at 14,021,538 acres; such acreage may be revised, but cannot be reduced below the statutory minimum of 10 million acres. The national programme acreage is a measure of the total acres needed to produce adequate supplies and carryover stocks; it is used in the calculation of certain other programme provisions. Size of the programme acreage does not restrict planting; there was no limit on planted acreage.

#### Programme activity

1. Upland cotton. CCC stocks under loan or in inventory on 31 July 1981 (the end of the marketing year), were 626,000 bales, compared with about 501,000 on 31 July 1980. Beginning with the 1971 crop, loans mature ten months from the first day of the month in which the loan is made, rather than on 31 July as was the case in prior years; however, the Food and Agriculture Act of 1977 provides that non-recourse loans for upland cotton shall, upon request of the producer during the tenth month of the loan period, be made available for an additional term of eight months, unless the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5 through 4.9) in the designated spot markets for the preceding month exceeds 130 per cent of the average spot price for the preceding thirty-six months. During the 1980/81 season, about 2.3 million bales were placed under loan, and through 31 December 1981, all but about 112,000 bales had been redeemed. Through 31 December 1981, about 1.5 million bales had entered the 1981/82 loan programme, and 159,000 bales had been redeemed.

The Food and Agriculture Act of 1977 also provides that if the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5 through 4.9) in the designated spot markets for a month exceeds 130 per cent of the average price of such quality of such cotton for the preceding thirty-six-month period, loans will not be extended, and the President shall proclaim a special global import quota, subject to certain conditions in the Act. Special quotas were opened in April and November of 1980, each for a ninety-day period. Utilization of both quotas was very small.

2. Extra long staple cotton. As with upland cotton, loans mature ten months from the first day of the month in which the loan is made. For the 1980 crop, ELS cotton loans could be extended, at the producer's request, for eight months, after the regular maturity date. During the 1980/81 season, 51,845 bales were placed under loan and through 31 December 1981, 33,584 bales had been redeemed. Through 31 December 1981, 14,108 bales of the 1981 crop had been placed under loan and 1,762 bales had been redeemed.

### Supply situation

1. Upland cotton. The carryover on 1 August 1980, totalled 3.0 million bales. Production in 1980 decreased significantly from 1979, totalling about 11.0 million bales as compared with about 14.5 million in the previous year. Thus, total supply in 1980/81 approximated 14.0 million bales or 4.4 million below a year earlier. Disappearance (domestic consumption and exports) totalled about 11.7 million bales in 1980 as compared with 15.6 million in 1979. Offtake in 1980 was above 1980 production by about 0.7 million bales, resulting in 0.3 million bale decrease in the carryover. The 1 August 1981 carryover is reported at about 2.6 million bales. The current estimate of 1981 crop production is 15.6 million bales, up about 4.6 million bales from 1980.
2. Extra long staple cotton. The carryover on 1 August 1980 totalled about 38,000 bales. Production in 1980 increased from 1979, totalling 104,000 bales as compared with 99,000 in the previous year. Imports in 1980 totalled 1,000 bales, the same level as 1979. The total supply approximated 143,000 bales or about 10,000 bales below a year earlier. Disappearance (domestic consumption and exports) totalled about 96,000 bales, about 21,000 less than 1979; about 7,000 bales were unaccounted for. The net result was a carryover on 1 August 1981, estimated at about 54,000 bales, 16,000 bales above a year earlier. The current estimate of the 1981 crop extra long staple production is 90,000 bales, down 14,000 bales from 1980.
3. Steps taken to balance supply and demand. In addition to acreage allotments, marketing quotas, and other acreage options, additional Government programmes designed to attain a better balance in the supply and demand position include: (1) CCC sales of its stocks in a manner that should avoid disrupting domestic and foreign markets; and (2) continued emphasis on research and market promotion programmes designed to increase cotton utilization throughout the world. These programmes remain basically the same as previously reported.

### 1982 Cotton Programme

On 29 January 1982, the Secretary of Agriculture announced an acreage reduction of 15 per cent for the 1982 crop of upland cotton. This step was taken under the authority of the newly enacted Agriculture and Food Act of 1981. Programme details will be included in the next report, scheduled for submission in the fall of 1982.

## PEANUTS

### Section 22 Quotas in Effect

On 4 December 1980, emergency action was initiated to allow an additional 200 million pounds (shelled basis) of edible grade peanuts to be imported into the United States through 30 June 1981. On 14 April, this amount was expanded to 300 million pounds (150,000 short tons) and the final importation date was extended to 31 July 1981. The annual basic quota of 1,709,000 pounds (shelled basis) remained in effect. The full amounts of both the regular and the additional quota were imported.

### Need for Continuing the Import Quota

Import controls on peanuts are being continued to prevent material interference with United States programmes and operations relating to peanuts.

### Programmes

The Food and Agriculture Act of 1977 required changes in the programmes for the 1978 through 1981 crops. The 1981 national acreage allotment was 1,739,000 acres, 125,000 acres above the statutory minimum of 1,614,000 acres and the level in effect for the 1978, 1979, and 1980 crops. This Act established minimum national poundage quotas which have been reduced each year from 1,680,000 tons in 1978 to 1,440,000 tons in 1981. Quotas represent the peanuts eligible for domestic edible use and supported at not less than US\$420 per ton. Peanuts produced on the acreage allotment but in excess of a farm's poundage quota are supported at a lower level. For the 1981 peanut crop, the Secretary announced a national poundage quota of 1,440,000 short tons supported at US\$455 a ton net, with the additional peanuts supported at US\$250 a ton net. This compares with a national poundage quota of 1,516,000 short tons supported at US\$455 a ton net and additional peanuts supported at US\$250 a ton for the 1980 peanut crop. Under the 1977 Act, the Secretary could increase the acreage allotment and poundage quota above the statutory minimum if he determined one or both were insufficient to meet expected requirements. The quota and additional support levels were set at the Secretary's discretion within legislative guidelines.

### Programme Activity

During the 1980/81 marketing year (August-July), 323 million pounds of farmers' stock peanuts were placed under loan, of which approximately 62 million pounds were redeemed or bought back for domestic edible use. For the 1981/82 marketing year, it is anticipated that the quantity placed under loan will approximate 350 million pounds, with about 250 million pounds redeemed or bought back for domestic edible use.

### Supply Situation

During the 1980 crop year, unusually hot, dry weather lowered production 42 per cent below 1979. The 1980 crop was the smallest since 1964. About 12 per cent of the peanuts marketed were not suitable for edible use. This quality problem further tightened the supply and necessitated the temporary expansion of the import quota. Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support programme since the 1969 marketing year are shown below, (Table 2).

The total supply of peanuts in the United States for 1981/82 is expected to be about 4,286 million pounds, compared with an average supply of 4,310 million pounds for the five years 1976 to 1980.

### Steps Taken to Balance Supply and Demand

The Food and Agriculture Act of 1977, effective for the 1978 through the 1981 peanut crops, represented the first major change in the peanut programme since 1949. It provided new, more effective methods for achieving a better balance between supply and demand. Since 1978, the United States has followed three principal approaches: (1) acreage in production has been held to the statutory minimum except for the 1981 crop; (2) peanuts eligible for support at the rate for domestic edible use have been reduced each year, from 1,680,000 short tons in 1978 to 1,440,000 short tons in 1981 (the minimum amounts permitted by law); and (3) peanuts acquired by the CCC under the price support programmes have been disposed of outside normal commercial market channels at a financial loss, primarily for crushing into oil. In addition, peanut products have been purchased under related programmes and utilized in domestic distribution programmes.

CCC net realized losses were US\$50 million for the 1979 crop and US\$20 million for the 1980 crop.

## DAIRY PRODUCTS

### Section 22 Quotas

Since the last report, further administrative action has been taken to facilitate utilization of the Section 22 quotas. The action is intended to assure availability of portions of unused licences to importers who can use them in the last quarter of the quota year.

The regulation governing the administration of the quotas was amended to include a penalty for less than adequate use (defined as less than 85 per cent utilization) of additional amounts made available from portions of licences returned to the licencing authority before October. These amounts are redistributed among other licences based on application. Such a penalty should lead licensees to make a careful survey of their needs before requesting amounts additional to their initial licence. During the first year additional amounts of quotas were made available, it appeared that some importers requested and received far more poundage than they could use. This tied up portions of the quotas that may have been used by other importers if it had been available.

TABLE 2 - Peanuts; Production, Consumption,  
Trade, Stocks, and Intervention Purchases

<u>Year Beginning August 1</u>	<u>Production 1/</u>	<u>Imports</u>	<u>Domestic Consumption &amp; Exports 2/3/</u>	<u>Stocks End of Year</u>	<u>Diversion Under Price Support</u>
Million Pounds, Farmers Stock Basis					
1969	2,535	1	2,540	353	536
1970	2,979	2	2,881	453	1,033
1971	3,005	2	3,063	392	1,204
1972	3,275	2	3,240	429	1,158
1973	3,474	1	3,351	553	858
1974	3,668	1	3,138	1,084	410
1975	3,857	1	3,886	1,060	1,170
1976	3,739	1	4,192	608	1,235
1977	3,715	1	3,743	581	305
1978	3,952	1	3,948	586	309
1979	3,968	1	3,927	628	436
1980	2,308	402	2,925	413	230
1981 <u>4/</u>	3,873				

1/ Data are net weight values.

2/ Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss, and shrinkage.

3/ Included in Domestic Consumption & Exports; may include diversions of previous crop.

4/ Preliminary.

Other actions taken adjusted the quotas for TSUS Appendix Item 950.10C (Gruyère-process) and 950.10D (other cheese-NSPF) for Switzerland without increasing their volume and increased the volume of TSUS Item 950.10D (other cheese-NSPF) for countries not having a separate quota (designated as "Other countries") by 156,526 pounds. In addition, temporary country of origin adjustments were made in 1981 to enhance use of quotas which were not going to be utilized in the original supplying countries. Those quotas temporarily adjusted include Italian-type cheese in original loaves (950.10), Edam cheese (Item 950.09A), other cheese NSPF (Item 950.10D), all from Argentina, and other cheese NSPF from Poland.

Cheese imports in 1981 increased by 12 per cent over 1980, despite a growing surplus of domestic cheese and generally poorer economic conditions in the United States. Nineteen eighty one was undoubtedly a more normal year of licence use, with fewer uncertainties and improved efficiencies in licensing administration. As a result, imports of quota cheese rose from 80 per cent of quotas in 1980 to 90 per cent of quotas in 1981.

#### Need for Continuing Import Quotas

Import controls on dairy products are being continued to prevent material interference with the United States support programme for milk. (See also the section on General Observations, pages 6 to 7.)

#### The Dairy Support Programme

Introductory Note. This section continues the summary of dairy support and utilization activities which is regularly included in this report. These data are normally compiled as of 30 September of the year of submission; this procedure is keyed to the traditional annual meeting of the CONTRACTING PARTIES in late November.

Submission of this report was delayed until early 1982, so that the particulars of the new farm legislation (which became effective 22 December 1981) could be included (see section on Agriculture and Food Act of 1981, pages 5 to 6). However, to ensure consistency with past reports and with the next report (planned for autumn 1982), the statistical series are continued as before. The accompanying discussion has been updated, where appropriate.

(a) Programmes. The price support programme, which is operated pursuant to the Agricultural Act of 1949, as amended, requires that price support for milk be established at such a level between 75 and 90 per cent of parity as will assure an adequate supply, reflect changes in cost of production, and assure a level of farm income adequate to meet future needs. The Act was amended, effective 1 October 1977, through 30 September 1981, to raise the minimum support level from 75 to 80 per cent of parity and require that the support price be adjusted semi-annually each year to reflect any estimated change in the parity index during the first six months of the marketing year.

The Agriculture and Food Act of 1981 further amended the basic legislation to reduce the minimum level of support to \$13.10 per hundred pounds for the 1981/82 marketing year (the Act was enacted after the beginning of the marketing year), and to establish the minimum level at 70 per cent of parity, effective 1 October 1982 to 30 September 1985. However, if CCC's projected net purchases are \$1 billion or more in any year, the Act provides for only small increases in the support prices: \$13.25 per cwt. in 1982/83, \$14.00 per cwt. in 1983/84, and \$14.60 per cwt. in 1984/85. Provided further that the minimum annual support level would be 75 per cent of parity if CCC's projected net purchases are less than 4.0 billion pounds milk equivalent in 1982/83, less than 3.5 billion pounds in 1983/84, and less than 2.69 billion pounds in 1984/85.

The support price was adjusted from \$11.49 to \$12.36 per hundredweight (national average milk fat content of 3.67 per cent on 1 April 1980, the mid-year point. On 1 October 1980, the beginning of the 1980/81 marketing year, the support price was set at \$13.10 per hundredweight which was 80 per cent of parity. The mid-year support price adjustment scheduled for 1 April 1981, was rescinded by legislation enacted 31 March 1981, and the support price was continued at \$13.10 per hundredweight. On 1 October 1981, the beginning of the 1981/82 marketing year, the support price was set at \$13.49 per hundredweight, which was 75 per cent of parity, the legal minimum. On 21 October 1981, the support price was re-established at \$13.10 per hundredweight, based on temporary legislation prior to enactment of the Agriculture and Food Act of 1981.

(b) Programme activity. In carrying out the price support and related programmes in the 1980 calendar year, the Department of Agriculture removed 7.0 per cent of the milk fat and 6.7 per cent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in calendar year 1980 were 257 million pounds of butter, 350 million pounds of cheese, 634 million pounds of non-fat dry milk and 17 million pounds of evaporated milk. The CCC purchase cost was \$1.4 billion, compared to \$362 million in 1979.

CCC purchases in the first nine months of 1981 were 307 million pounds of butter, 480 million pounds of American cheese, 10 million pounds of Mozzarella cheese and 677 million pounds of non-fat dry milk at a purchase cost of \$1.8 billion. These figures compare with 210 million pounds of butter, 288 million pounds of American cheese, 21 million pounds of Mozzarella cheese and 524 million pounds of non-fat dry milk at a purchase cost of \$1.2 billion for the same period in 1980.

The expenditures under the Special Milk Programme were \$157 million during 1979/80 (1 October 1979-30 September 1980). The expenditures were \$119 million in 1980/81.



(c) Supply situation. Milk production began to increase, relative to a year earlier, in May 1979. By September it was more than three per cent above a year earlier, and production for the year was about 1.6 per cent above 1978. In 1980, milk production continued to increase over a year earlier - the increase was more than four per cent at year end, and daily average production in 1980 was 3.7 per cent above 1979. Although milk production continued to increase in 1981, the increase over a year ago slowed to about 2.7 per cent in June and remained at about the level through October. For the first nine months of the year it was about 3 per cent above the same period a year earlier. In 1980, production per cow increased by about 3.4 per cent. Cow numbers reversed a long-term trend and began to increase relative to a year earlier beginning in February 1980, and have been above year earlier levels each month since then.

World supplies of dairy products continue to be in excess of commercial demand. The resultant surpluses continue to seek outlets wherever possible. In the absence of import controls, these surpluses would replace domestic production to the serious impairment of the dairy price support programme.

#### Steps Taken to Balance Supply and Demand

Several legislative actions in 1981 were intended to discourage the production of excess milk. On 31 March, the President signed the law that rescinded the semi-annual adjustment scheduled for April. Also, the 1 October 1981 support price increase to \$13.49 per hundredweight (the legal minimum on that date) was rolled back to \$13.10 on 21 October 1981. The Agriculture and Food Act of 1981 authorized continuation of the support price at \$13.10 for the remainder of the 1981/82 marketing year and reduced the minimum support level to 70 per cent of parity through 30 September 1985 if projected price support purchases exceed certain levels.

A number of programmes are conducted to expand the utilization of dairy products. These programmes serve as adjuncts to the price support programme in seeking to attain a better balance between supply and demand. They include: (a) the Special Milk Programme designed to increase the consumption of fluid milk among children by reimbursing state agencies and private institutions for the milk served; (b) CCC purchases (under the authority of the price support programme) on a competitive bid basis of butter, cheese, and non-fat dry milk in special forms and in consumer-size packages, in order to facilitate use in food distribution programmes; (c) CCC purchases of evaporated milk and of milk-based infant formula; (d) the school lunch programme; (e) distribution to institutions and welfare programmes, including prisons, Indian reservations, community welfare programmes; and (f) distribution of surplus commodities to needy through food banks operated by non-profit or charitable organizations; (g) foreign donation programmes for welfare and emergency assistance under P.L. 480, Title II; (h) export sales for social welfare programmes in recipient countries; and (i) export sales at world market prices. Increased consumption of dairy products also resulted from the food stamp programme and from participation in the women-infants-children (WIC) programme under which certain disadvantaged groups receive financial

assistance for increased food purchases. The Food and Agriculture Act of 1981 authorized the distribution of surplus dairy products to needy through food banks. At least 100 million pounds of process cheese has been made available under this programme. The Food and Agriculture Act of 1981 also directed the Secretary to use all available authorities to the fullest practicable extent to reduce Government inventories of dairy products, including exportation at not less than world market prices. Preliminary data for fiscal year 1980/81 indicate that 1.72 billion half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Programme compared with 1.77 billion during the same period in 1979/80.

The following tables summarize USDA market removals from 1960 through September 1981, and utilization during 1979, 1980 and the first nine months of 1981. (Tables 3 to 5.)

TABLE 3 - Milk Production and Market Removals, by Calendar Year, 1960-1980 and Jan.-Sept. 1981

Year	Milk Production	USDA Market Removals				Milk Equivalent Removals	Percent of Milk Production
		Butter	Cheese	Nonfat dry milk	Evap- orated milk		
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Percent
1960 . . . . .	123,109	144.8	0.3	852.8	--	3,101	2.5
1961 . . . . .	125,707	329.4	100.3	1,085.6	--	8,019	6.4
1962 . . . . .	126,251	402.7	212.9	1,386.1	--	10,724	8.5
1963 . . . . .	125,202	307.5	110.9	1,219.2	--	7,745	6.2
1964 . . . . .	126,967	295.7	128.5	1,168.8	--	7,676	6.0
1965 . . . . .	124,180	241.0	48.6	1,098.4	--	5,665	4.6
1966 . . . . .	119,912	25.1	10.8	365.8	--	645	0.5
1967 . . . . .	118,732	265.1	180.5	687.0	--	7,427	6.3
1968 . . . . .	117,225	194.8	87.5	557.8	54.9	5,159	4.4
1969 . . . . .	116,108	187.9	27.7	407.2	107.5	4,479	3.9
1970 . . . . .	117,007	246.4	48.9	451.6	48.4	5,774	4.9
1971 . . . . .	118,565	292.2	90.7	456.2	111.4	<u>1/</u> 7,268	6.1
1972 . . . . .	120,025	233.7	30.4	<u>2/</u> 345.0	97.0	<u>1/</u> 5,345	4.5
1973 . . . . .	115,491	97.7	3.2	36.8	53.7	<u>1/</u> 2,185	1.9
1974 . . . . .	115,586	32.7	60.3	265.0	28.3	1,346	1.2
1975 . . . . .	115,398	63.4	68.2	394.5	24.5	2,036	1.8
1976 . . . . .	120,180	39.4	38.0	157.1	21.8	1,236	1.0
1977 . . . . .	122,654	221.8	148.2	461.7	15.9	6,080	5.0
1978 . . . . .	121,461	112.0	39.7	285.0	17.6	2,743	2.3
1979 . . . . .	123,411	81.6	40.2	255.3	16.4	2,119	1.7
1980 . . . . .	128,425	257.0	<u>3/</u> 349.7	634.3	17.5	8,800	6.9
1981 . . . . .	132,418	351.5	563.0	851.3	18.6	12,861	9.7
Only Jan.-Sept.	100,529	307.1	<u>3/</u> 489.8	676.8	14.6	11,212	11.2

1/ Includes small purchases of dry whole milk.

2/ Includes 9.6 million pounds, Title I export sales.

Uncommitted Government stocks on September 30, 1981 were 811.1 million pounds of nonfat dry milk; 216.5 million pounds of butter and 554.4 million pounds of cheese.

3/ Includes quantities of Mozzarella cheese as follows: 28.4 million pounds in CY 1980, 12.2 million pounds in CY 1981, and 5.7 million pounds January through September 1981.

TABLE 4 - Utilizations (Commitments to Uses) in Calendar Year 1980 Compared with Calendar Year 1979 were: 1/

Item	Butter		Cheese			Nonfat dry milk	
	1979	1980	American 1979	Mozzarella 1980	Mozzarella 1980 <sup>2/</sup>	1979	1980
	(Million pounds)						
Uncommitted supplies as of beginning of year	164.3	142.6	9.5	19.9	---	524.8	381.1
Purchases (contract basis)	85.1	259.7	56.4	324.9	32.9	255.3	634.3
Utilizations							
Sales--unrestricted use	3.4	2.7	0.3	2.5	---	---	---
Sales--restricted use	0.6	1.5	---	---	---	71.2	75.8
Noncommercial Export Sales	---	---	---	---	---	3/35.6	4/132.3
Sales to Dept. of Defense	---	0.9	---	---	---	10.2	8.8
Domestic donations							
Schools and needy							
As dairy product	87.1	103.9	41.6	143.7	32.9	42.3	43.0
Furnished for manufacture of Mozzarella cheese	---	---	---	---	---	45.0	---
Bureau of Prisons	1.7	1.0	---	0.2	---	0.4	0.1
Dept. of Defense	7.3	5/17.8	---	2.3	---	---	---
Veterans Admin.	0.5	0.4	---	---	---	---	---
Foreign donations							
As dairy product	---	---	---	---	---	156.8	156.4
Furnished as an ingredient in corn-soya-milk	---	---	---	---	---	34.9	42.1
Total utilizations	100.6	128.2	41.9	148.7	32.9	396.4	458.5
Uncommitted supplies as of December 31	142.6	273.7	19.9	196.8	---	381.1	6/532.4

1/ Totals may not result from additions and subtractions because of rounding and inventory adjustments.

2/ There were no purchases of Mozzarella cheese during calendar year 1979.

3/ Quantity ordered for delivery in 1979. Sales made in 1979 totaled 69.5 million pounds.

4/ Quantity ordered for delivery in 1980. Sales made in 1980 totaled 88.2 million pounds.

5/ Includes 9.0 million pounds for delivery in 1981.

6/ Reflects contract adjustments.

TABLE 5 - Utilization (Commitments to Uses) in January-September 1980 Compared with January-September 1981 were: 1/

Item	Cheese							
	Butter		American <u>2/</u>		Mozzarella		Nonfat Dry Milk	
	Jan.- 1980	Jan.- 1981	Jan.- 1980	Jan.- 1981	Jan.- 1980	Jan.- 1981	Jan.- 1980	Jan.- 1981
	(Million Pounds)							
Uncommitted supplies as of beginning of year	142.6	273.7	19.9	196.8	---	---	381.1	532.4
Purchases (contract basis)	210.4	307.1	276.2	468.9	22.8	5.7	524.2	676.8
Utilizations:								
Sales--unrestricted use	2.7	---	2.1	6.2	---	---	---	---
Sales--restricted use	1.5	<u>3/</u>	---	<u>3/</u>	---	---	56.0	32.0
Noncommercial export sales	---	<u>4/291.9</u>	---	<u>4/0.9</u>	---	---	89.3	<u>4/139.9</u>
Sales to Dept. of Defense	0.9	---	---	---	---	---	6.9	7.2
Domestic donations								
Schools and needy								
As dairy product	71.3	75.3	98.1	102.8	17.5	5.7	31.5	33.3
Furnished for manufacture of Mozzarella cheese	---	---	---	---	---	---	9.1	---
Bureau of Prisons	0.6	0.9	0.2	0.3	---	---	0.1	<u>3/</u>
Dept. of Defense	8.8	---	1.0	1.3	---	---	---	---
Veterans Administration	0.4	0.1	---	---	---	---	---	---
Foreign donations								
As dairy product	---	---	---	---	---	---	125.2	151.7
Furnished as an ingredient for CSM (corn-soya-milk)	---	---	---	---	---	---	32.0	26.3
TOTAL UTILIZATIONS	86.2	368.2	101.4	111.5	17.5	5.7	347.2	390.4
Uncommitted supplies as of September 30	266.5	216.5	195.8	554.4	---	---	<u>5/548.0</u>	<u>5/811.1</u>

1/ Totals may not result from additions and subtractions and because of rounding and inventory adjustments.

2/ Includes process cheese.

3/ Less than 50,000 pounds.

4/ Negotiated contracts with deliveries extending into 1982.

5/ Reflects contract adjustments.

## SUGAR

### Section 22 Import Fees

As previously noted, the system of flexible import fees applicable to imports of sugar and syrups remained in effect. During the reporting period until 11 September 1981, the fee for raw sugar was zero cents and for refined sugar was 0.52 cents per pound. On that date, because of falling world prices, the fees were increased to 1 cent and 1.52 cents per pound, respectively. On 1 October continuing price declines necessitated further fee increases to 1.531 cents per pound for raw sugar and 2.051 cents per pound for refined sugar. The aforementioned fees were keyed to a market price objective of 15 cents per pound originally established in 1978. Sugar imports for the production of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human consumption, are exempt from the fees.

### Need for Continuing the Import Fees

The import fee system has remained in force in order to prevent interference by imports with the support programme for sugar cane and sugar beets. As previously noted, support operations for the 1979 crop continued, but there were no support programmes for the 1980 and 1981 crops. The Agriculture and Food Act of 1981 reinstated support programmes for sugar cane and sugar beets, necessitating adjustments in the import fee system to make it consistent with the provisions of the legislation. The market price objective was changed to 19.08 cents per pound (raw value) and other factors were updated. Various technical improvements in the system were also made, based on previous operating experience. These changes resulted in a further increase in the import fees to 2.1418 and 3.1104 cents per pound for raw and refined sugar, respectively, effective 24 December 1981. In a related action, customs duties were increased, for raw sugar with 96 degrees polarity, the duty was changed from 0.625 to 2.8125 cents per pound.

### Price Support Programme

The Agriculture and Food Act of 1981 established a support programme for sugar cane and sugar beets for the 1982 through 1985 crops. Support will be provided through a loan programme effective 1 October 1982. As an interim measure, the Act also provides that the Department of Agriculture will support the market by offering to purchase raw cane sugar from the 1981 crop processed between 22 December 1981 and 31 March 1982, at 16.75 cents per pound.

The loan rate for the 1982 crop (raw value) will be 17 cents per pound. For the 1983 through 1985 crops, it will be 17.50, 17.75 and 18 cents respectively. Regulations for the operation of these programmes had not been completed at the time this report was prepared; they will be summarized in the next report. As in previous years, the support programme is intended to maintain the nation's capacity to produce part of its sugar needs, but not to induce significant expansion of production.

Under the support programme for 1979 and preceding years, processors qualified for nonrecourse loans on sugar, syrups or edible molasses processed from cane, or on refined beet sugar. The loan rate for the 1979 crop was 13 cents per pound, raw value, equivalent to a range of 43-47 per cent of parity. Loans on 1979 crop sugar totalled just over \$486 million, representing over 1.7 million short tons, raw value.

Programme provisions included the following:

1. In order to be eligible for a loan, the processor was required to pay all his eligible producers not less than prices specified by CCC for sugar beets and sugarcane.
2. Unredeemed loan collateral becomes the property of the Commodity Credit Corporation (CCC) at loan maturity. Processors must continue to store (CCC will make storage payments) the commodity after loan maturity until CCC moves it elsewhere.
3. Nineteen seventy nine crop loans matured on the last day of the ninth month following month of disbursement.
4. Loans were made and serviced by state and county ASCS offices.

The following table shows basic data on sugar production and imports, and on utilization of supplies, (Table 6).

#### Supply Situation

The United States is not self-sufficient in sugar. Over the longer term, domestic production has supplied between 48 and 63 per cent of requirements, averaging about 55 per cent. Imports provided the remainder of supplies, primarily in the form of raw sugar. Annual data on sugar production, imports, stocks and utilization are shown in the following table. Domestic production in 1979 increased to 5.8 million short tons, compared to 5.6 million short tons in 1978. Production for 1980 (final) should be about the same as for 1979 and 1981 production is expected to increase by 5 percent or more. Because of excess world supplies and depressed prices in 1978 and most of 1979, United States market prices for sugar remained below support levels for most of the period during which import fees have been in effect. Prices rose dramatically in 1980 as excess supplies have dwindled, but have fallen severely in 1981.

#### Steps Taken to Balance Supply and Demand

Until the expiration of the Sugar Act of 1948 on 31 December 1974, imports of sugar were regulated by import quotas. Since then, the United States has endeavoured to respond to marked shifts in world supplies and prices by policies intended to achieve domestic market price which, at the consumer level, were noninflationary and which would cover production costs and provide a reasonable return to efficient producers. Utilization of sugar in distribution and special feeding programmes has not been a practical alternative.

TABLE 6 - SUGAR, CANE AND BEET: SUPPLY AND UTILIZATION, UNITED STATES, CALENDAR YEARS, 1970-80

YEAR	SUPPLY				UTILIZATION				TOTAL SUPPLY
	CANE 1/	BEET	TOTAL	1,000 SHORT TONS, RAW VALUE	NET	DOMESTIC DISAPPEARANCE	MILITARY AND CIVILIAN	TOTAL PER CAPITA	
1970	2,363	3,511	5,874	5,296	353	5,649	2,869	14,392	
1971	2,386	3,429	5,815	5,587	144	5,731	2,835	14,381	
1972	2,401	3,534	6,015	5,459	149	5,608	2,823	14,446	
1973	2,708	3,353	6,061	5,329	79	5,408	2,823	14,292	
1974	2,941	3,221	5,662	5,770	157	5,927	2,646	14,235	
1975	2,827	3,473	6,300	3,882	96	3,978	2,854	13,132	
1976	2,795	4,003	6,798	4,658	203	4,861	2,856	14,515	
1977	2,666	3,423	6,089	6,138	102	6,240	3,498	15,827	
1978	2,535	3,067	5,602	4,683	52	4,735	4,491	14,828	
1979 3/	2,727	3,066	5,793	5,027	47	5,074	3,754	14,621	
1980 4/	2,684	3,052	5,736	4,495	178	4,673	3,701	14,110	

YEAR	UTILIZATION				1,000 SHORT TONS, RAW VALUE				POUNDS REFINED
	TOTAL USE	EXPORTS	NET	CHANGE IN STOCKS	DOMESTIC DISAPPEARANCE	LIVESTOCK	MILITARY AND CIVILIAN	TOTAL PER CAPITA	
1970	11,557	66	185	60	83	11,163	101.8	101.8	
1971	11,558	89	-7	70	61	11,345	102.1	102.1	
1972	11,623	50	-21	45	62	11,487	102.3	102.3	
1973	11,646	26	91	69	31	11,429	100.8	100.8	
1974	11,381	72	305	51	8	10,945	95.7	95.7	
1975	10,276	216	-277	29	6	10,302	89.2	89.2	
1976	11,017	76	-24	72	---	10,893	93.4	93.4	
1977	11,336	22	201	14	---	11,099	94.2	94.2	
1978	11,074	16	57	108	4	10,889	91.4	91.4	
1979 3/	10,920	18	43	103	---	10,756	89.3	89.3	
1980 4/	11,028	650	111	78	---	10,189	83.7	83.7	

1/INCLUDES HAWAII. 2/CALCULATED AS A RESIDUAL. 3/PRELIMINARY 4/ESTIMATE